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**IMPACT OF FINANCIAL RATIOS ON REAL ESTATE
INVESTMENT TRUSTS' CAPITAL STRUCTURE**



ALI SUBRI DESA

**MASTER OF SCIENCE (FINANCE)
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**IMPACT OF FINANCIAL RATIOS ON REAL ESTATE INVESTMENT TRUSTS'
CAPITAL STRUCTURE**



**By
ALI SUBRI DESA**

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**Pusat Pengajian Ekonomi,
Kewangan dan Perbankan**

SCHOOL OF ECONOMICS, FINANCE, AND BANKING

Universiti Utara Malaysia

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ABSTRACT

Real Estate Investment Trusts (REITs) is a trust unit that creates fund flow from investors and unit holders to real estates. In Malaysia, REITs is a low-risk investment tool. It can provide at least 90 percent of net profit to the investors and unit holder in terms of dividend. The aim of this study is to examine the impact of financial ratios on Real Estate Investment Trusts' capital structure. Capital structure refers to the way a corporation finance its assets through some combination of equity, debt or hybrid securities. By using trade-off theory and pecking order theory as theoretical background, thirteen REITs companies were used as a sample based on its five years audited annual reports (2010-2014). Leverage was used as dependent variable and four market variables were used as independent variables for this research; profitability, firm's size, tangibility and liquidity. The results of this study are consistent with the pecking order theory in explaining the Malaysian REITs debt financing decision but are less supportive of the trade-off theory on tax benefits. This finding suggests that Malaysian REITs use debt to support the growth needs rather than tax motives and the high dividend pay-out requirement act as a "disciplinary tool," not through the use of debt.

Keywords capital structure, REITs, financial ratios, leverage, debt capital



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CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter will serve as the introduction and background for this research topic, starting with the history of Real Estate Investment Trusts (REITs) first existent and also its introduction and development in Malaysia. The following part will explain on the problem statements, research questions, research objectives and the significances of this research. Further on this chapter, it will discuss the scopes and limitations of the research topic, the organization and arrangement, and at the end of this chapter the summary will be presented.

1.2 History of REITs introduction and development in Malaysia

The history of REITs started when the President of USA, Dwight D. Eisenhower signed legislation on 14th September 1960 which introduced a new income producing real estate investment. The introduction of REITs has created a new investment tool based on real estate investment, but having the best attributes of real estate and stock at the same time (Graff, 2011). This newly investment tool has brought with it the benefits to all type of investors due to its accessibility, liquidity, persistent income and professional management. All these benefits previously had been only available to wealthy investors and large financial intermediaries. Even though similar to normal unit trust structurally, REITs are traded same as other type of stocks available which mean through stock exchanges. Therefore, it can provide returns to its investors through its capital appreciation when the price of the stock increases and also through distributions from its annual income and profits. Unlike other types of companies which keep much of their

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